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Baltimore's \$55 million Tide Point project, which involved the conversion of five industrial warehouse buildings into a high-tech waterfront campus, includes more than 400,000 square feet of office space and 50,000 square feet of commercial and related services.

THE MID-ATLANTIC COMMERCIAL REAL ESTATE MARKET IS HOLDING ITS OWN IN A SLUGGISH ECONOMY.

Commercial real estate markets generally track the national economy, with some performing slightly better and others slightly worse than the national average. Rarely does one market deviate radically from the mean—a pattern that holds true today. The national economy remains sluggish, especially regarding new job creation, and the same can be said for commercial real estate markets in most regions. Happily for the mid-Atlantic region, its economy has performed slightly above average for the past two years, and, as a result, commercial real estate activity, while not booming, is holding its own.

“It’s surprising. When you look at the economic numbers, you see the mid-Atlantic is running counter to the national performance,” says Ray Torto, principal with Boston-based Torto-Wheaton Research, which tracks commercial real estate activity across the country. The difference is not spectacular, he says, but it is enough to attract attention from real estate investors. In terms of total job growth, the numbers were flat or dropped last year for most of the country, but in every market in the mid-Atlantic, the employment figures were positive during the past 12 months, according to Torto’s research. Job growth was 1 percent in Baltimore; 0.4 percent in Philadelphia; 0.9 percent in Washington, D.C.; 0.5 percent in Wilmington, Delaware; and 0.2 percent in Richmond, Virginia.

Moreover, while rental rates in the multifamily housing market dropped 1 percent nationally last year, in the mid-Atlantic region they decreased between 2.5 and 3 percent. Multifamily housing vacancy rates today average 7 percent nationally while they are below 7 percent throughout the mid-Atlantic region, according to Torto-Wheaton figures.

But even within the mid-Atlantic corridor, which includes Baltimore, Philadelphia, Richmond, Wilmington and Washington, D.C., performance varies from market to market, with activity diminishing in direct proportion to the distance from Washington. The expansion of federal government activity during the past two years buffered the Washington market from the full effects of the recession. The office market in particular in the Washington/northern Virginia/Baltimore area continues to be among the healthiest in the country. Grubb & Ellis, the national commercial real estate brokerage firm, ranks the Washington market as the fourth most attractive in the country, behind only Atlanta, Los Angeles, and Riverside-San Bernardino, California.

Rising federal employment has created additional pressure on an already tight Washington housing market. As demand increases, housing prices are rising to record levels, heightening concerns that workers with moderate incomes will no longer be able to afford to live anywhere near their jobs. Smart growth topics such as infill development, transit-oriented development, and mixed-use development have risen to the top of the agenda for planners and developers.



A \$50 million residential neighborhood is being developed on a ten-acre site along Wilmington's downtown waterfront. The project will include two seven-story apartment buildings, a seven-story condominium building, and 60 townhouses along a waterfront promenade and public park.

Federal government activity also sparked a rebound last year in the Baltimore metropolitan area, particularly in its office market. During the year, the market absorbed 1.4 million square feet of space, dropping the vacancy rate from 18.1 percent to 16.8 percent. Within the Baltimore metropolitan area, the Baltimore/Washington International Airport (BWI) market had the lowest vacancy rate, the result "of strong demand by the defense and homeland security sector, which has buffered the Baltimore economy during the national economic slowdown," according to a year-end 2003 office market report by Colliers Pinkard, a Washington, D.C.-based brokerage. Within the city of Baltimore, brownfields remediation and adaptive use of waterfront industrial properties are gaining momentum, an indication of a growing return-to-the-city trend.

In Philadelphia, optimism within the commercial real estate community is growing. Whether these positive feelings are the result of improving economic news or the congenial real estate developer inclination to hope for the best is not clear. "More than a year ago, members of the real estate community began to report that they could see the light at the end of the tunnel," wrote Gregory West in the Colliers Lanard & Axibund midyear office market report. "Well, it was either a very slow vehicle or a very long tunnel!"

He noted that leasing activity remained slow and rental rates continued to decline, making kings of tenants. "With a substantial amount of 'existing' available space in place, landlords must be aggressive to keep their existing tenants and provide many 'additional' incentives for new tenants," said West. Nevertheless, he predicted that the bottom would have been reached by the end of 2003, and that the region would see a gradual movement toward a balanced market this year.

As in Baltimore and Washington, infill development in Philadelphia and its inner-ring suburbs is becoming increasingly popular. Activity is even spreading across the Delaware River to the long depressed waterfront of Camden, New Jersey. The Pennsylvania and New Jersey governments have joined in projects to improve infrastructure in the area in an effort to increase the region's attractiveness for the growing cohort of suburbanites who want to live closer to downtown Philadelphia. Despite the general sluggishness of the market, moderate growth and a high-barrier-to-entry environment are making Philadelphia attractive for investors. In fact, investor interest is high throughout the region, due mainly to abundant capital, low interest rates, and the higher risks of other capital markets. In Philadelphia, as elsewhere in the region, the result has been extraordinarily high prices paid for properties, and investment levels that yield a lower-than-usual return.

The Richmond market is unspectacular but stable, according to local real estate professionals. Modest absorption is predicted this year for both the downtown and suburban office markets, and there is hope that an improving economy will generate more confidence. New office projects along the James River are expected to create competition for tenants from downtown spaces. Short Pump Town Center and Stony Point Fashion Park, two malls that have added close to 2 million square feet of retail space to the Richmond market, have laid the foundation "for upscale retail in Richmond," according to the 2004 Thalhimer Report, published by Thalhimer/Cushman & Wakefield Research Services.

Although the markets in the region have many similarities, each has a unique project or development trend that is indicative of broader social and demographic trends in its area.

BALTIMORE

“The city is safer and cleaner and people are coming in,” says Otis Rolley, Baltimore’s planning director. Mayor Martin O’Malley’s attention to cleaning up crime and grime is paying dividends for the city, both in terms of attracting new residents and new businesses, Rolley says. Remediation of the city’s abundant brownfields sites is the most apparent example of the city’s return to health.

Since 1996, \$300 million has been invested in remediation projects, according to city estimates and ongoing yearly investments are expected to reach \$100 million. To date, more than 30 contaminated sites have been cleaned up and returned to the market, and 60 other sites totaling 2,000 acres are on the city’s radar screen.

“There’s a whole new attitude about redeveloping contaminated sites,” explains Bill Struever, CEO of Struever Bros. Eccles & Rouse. “There’s a growing awareness within the EPA [Environmental Protection Agency] that the gray mush area of environmental liability is scary for developers and lenders. They have tried to turn that around.” One of the areas that has benefited from this more realistic attitude is the Baltimore waterfront, where vacant industrial properties are being turned into mixed-use developments.

Although city officials are pleased with the revival of the harbor, they understand that Baltimore is still a working port, which benefits the local economy. Some 29 million tons of cargo pass through Baltimore each year, making it the third business port in the country. “We have a unique tension on the shoreline between industrial growth and mixed-use development on the harbor,” says Rolley. “The port industry is not the city’s sole economic engine, but it’s vital. We are trying to protect our deepwater access sites and create mixed-use developments at the shallower sections in the inner harbor.”

An example of adaptive use on the inner harbor is Tide Point, a five-building Proctor & Gamble soap manufacturing plant that Struever’s company converted into a mixed-use office and retail complex. Design Collective, a Baltimore-based design firm, integrated the plant’s industrial symbols into the office space. “Inside the building are huge vats, gigantic drums, interesting pipes, and steel doors that we save and reused,” explains Matt D’Amico, principal with Design Collective. “One vat we saved is now in a conference room; a steel door is now a partition. A lot of young, creative businesses are drawn to that.” The proof of its appeal is that the complex is fully leased, D’Amico says.

WILMINGTON

Wilmington is loaded with potential, says Bill Struever of Struever Bros., whose market includes Delaware’s major city. “It is strategically located between Philadelphia and Baltimore, it has two

gorgeous riverfronts-the Brandwine and the Christina-and it has an Amtrak stop," he explains. "It has 47,000 people working downtown and no place to eat, shop, or live downtown," he adds. "We think there's a great opportunity to create a 24/7 downtown."

Wilmington is home to such companies as MBNA, DuPont, Wilmington Trust, ING Direct, Hercules, and Juniper Bank. Also with significant operations in the city are AIG, BankOne, PNC Bank, and Chase Manhattan. Moreover, for the first time in 35 years, people are moving back into the city proper, and Mayor James Baker who took office in 2001, has launched an initiative called Advantage Wilmington to attract new business to the city.

"We have found that Wilmington is a proactive place to do business," says Sweeny. "The city and state governments have put together a comprehensive economic development program. They spend time with prospects, and they are one of the best at facilitating new development."

Part of Wilmington's problem in the past has been that people judged the city by two somewhat unflattering factors: dominance by DuPont and the down-at-the-heels appearance of the Amtrak station downtown, says Richard Pryor, Wilmington's director of economic development. But that has changed. DuPont has been downsizing for years to the point that it is no longer the major employer in the state; MBNA now has that distinction. And the Amtrak station environs are being upgraded. Nearby riverfront brownfields have been cleaned up and new multifamily housing is being built.

This progress will change the city's image, say Pryor, and with a new image and generous financial incentives, businesses will start rolling in. "We are starting to put the pieces in place," he explains. "Over the next five years, we hope to see a continuing increase in the number of businesses, residents, and mixed-use developments in the city."

PHILADELPHIA

Even during the 1990s, Philadelphia was never a high-growth, high-demand market, says Jerry Sweeny, principal with Brandywine Realty Trust. Instead, he says, "It is a stable, steady market more susceptible to supply side pressures than demand pressures." Office vacancy rates are in the 15 to 20 percent range, and Class A rental rates are in the vicinity of \$20 to the low \$30s per square foot.

The industrial market in the tri-state area-Pennsylvania, New Jersey, and Delaware-is not faring well. There is minimal absorption and no new construction, which reflects the fact that the market has experienced virtually no expansion of existing companies or immigration of new companies. But even here there is a bright side. "The region's industrial sector is in a more favorable position than other markets," the Colliers report state. "The major players have cautiously maneuvered through these difficult times. They appear to be healthy and poised to provide new product at the appropriate time."

It is in the Philadelphia residential market that bold steps are being taken. Perhaps the most significant is the adaptive use of the 525,000 square foot former RCA cabinet factory on the Camden side of the Delaware River. The building was abandoned in 1985 and remained empty for the next 15 years. Ultimately, it landed in the hands of the New Jersey/Pennsylvania bi-state redevelopment agency, which teamed up with Philadelphia-based Dranoff Properties Inc. Together they embarked on a \$60 million conversion of the property, now called the Victor, which will create 341 non-subsidized housing units that will rent in the range of \$975 to \$1,200 per month. This is the first market-rate housing built in Camden, a city of 80,000, in more than 50 years. According to Dranoff officials, there are twice as many applicants as there are units.

The Victor and other infill developments have been prompted by the return-to-the-city trend. Real estate professionals say that increased traffic and the growing empty nest population are making city life more attractive. But they say the Victor would not have been possible without the extraordinary public investment in infrastructure that converted the Camden shore from an eyesore to an acceptable alternative. The Camden waterfront has a new light-rail system, a ferry system and a riverfront esplanade, play an aerial tram crossing the river to Philadelphia is proposed.

“Interest in residential development is high,” says Sweeny. “Developers are looking for infill where infrastructure is in place. They are reclaiming places that have been passed over. Camden is a good example.”

RICHMOND

“The good thing about Richmond is it never experiences peaks and valleys,” observed David Smith, first vice president with Thalhimer Companies, Richmond brokerage firm. “We have a multidimensional economy—the Richmond Federal Reserve Bank, state government, universities, and tobacco products—which keep us from going way down. But we are not a boomtown either.”

The biggest event in the local commercial real estate market last year was the relocation of the Philip Morris USA headquarters from Manhattan to suburban Richmond. The company leased 240,000 square feet of space at a landmark building that formerly served as the headquarters for Reynolds Metals. Yet, even with this massive lease, the suburban market ended 2003 with a positive absorption figure of only 332,000 square feet.

The downtown office market saw little movement in 2003, but this year promises to be a different story. Office construction at the Riverside on the James River will bring new product on the market, which means increased competition for available tenants.

The housing market appears to be in balance, with occupancy rates and prices remaining relatively stable. “As long as interest rates continue at or near current low levels, look for more rehabilitation of existing Class B and C multifamily product and the continued development of tax-credit and affordable housing,” advises the 2004 Thalhimer Report.

Absorption of multifamily housing units is steady and is expected to continue that way throughout the year, according to the report. Even so, the trend toward conversion of rental properties to condominiums, prevalent all along the East Coast, has not yet hit Richmond. “Condominiums have not caught fire yet in Richmond,” says Smith. But there are rumblings: a multifamily unit under construction that originally was planned for rental has been converted to condominiums. “I predict [condominiums] will be a real powerhouse in five years,” Smith adds.

WASHINGTON, D.C.

The federal government is an economic engine so strong and steady that national downturns often go unnoticed in Washington. That has certainly been the case during the most recent slump. “I haven’t seen as much desire to invest in this area since 1982,” notes Bill Hard, executive vice president and principal with LCOR, a full service Pennsylvania-based commercial real estate company with offices in Bethesda, Maryland. “The federal government is here. Job growth projections are good. There is a lot of capital eager to invest here because there are not a lot of better alternatives.”

That is not to say, however, that Washington is without problems. They just are the kind of problems that occur in robust markets: rising rental rates, low vacancy rates, residential property values that continue to march to the stratosphere, the dearth of developable land, and traffic tie-ups that add hours to working days.

The housing market is particularly challenged. Average prices for close-in townhouses are about \$35,000; singly family homes—when they can be found—average around \$450,000 and condominiums sell for about \$4.25 per square foot. Rental units are being converted to condominiums with growing frequency. Demand continues to rise while the local building situation, both physical and regulatory, hampers the supply.

“We have a basic contradiction here,” says David Flanagan, principal with Elm Street Development, a Washington, D.C.-based residential land developer. “every county is trying to attract jobs and at the same time shutting down housing [development]. I think it’s going to reach a crisis point before we do anything. People would like to live closer to the city, but they can’t find anything. So they are continuing to ‘drive to qualify’ which increases sprawl.”

The lack of workforce housing has become a hot topic for discussion, and some action to address the problem has been taken. People earning moderate incomes who work in Washington or several of the inner-ring suburbs find it increasingly difficult to find affordable housing near their workplace. Montgomery County, Maryland, has instituted a policy of inclusionary zoning, requiring developers either to include affordable units in their projects or contribute to a housing trust fund. Still, says Flanagan, “People are taking action now, but it’s not fast enough.”

The office market is also strong, with some spectacular projects underway. One is LCOR’s six-building, 2.5 million square foot campus in Alexandria, Virginia, for the U.S. Patent and

Trademark Office (PTO) headquarters. It is the largest construction project underway on the East Coast, and the largest lease for space ever signed by the U.S. General Services Administration.

The PTO formerly occupied 18 buildings in a sprawling complex in Crystal City in Arlington County, Virginia, but for efficiency reasons it wanted to consolidate. The PTO chose the 15-acre Alexandria site, among other reasons, because of its proximity to downtown Washington and two Metro rail stations. Access to the stations allowed the number of parking spaces to be reduced to 1.5 cars per 1,000 square feet of office space. Eventually 7,100 employees will work at the six-building campus. Two of the six buildings are now completed and occupied; the remaining four should be ready within the next 12 months according to Hard.

measures, designed by Acoustic Dimensions, Norwalk, Conn., to soundproof the rooms. In Friedberg concert hall, the west door was replaced with a heavy-duty door possessing a sound transmission coefficient of 54, says Quinn Evans' principal Carl Elefante, AIA. Sound- and light-lock vestibules were installed at the east and west doors.

The renovation project included the addition of a fourth performance space in the building, the Cohen-Davison Family Theater, which formerly housed two classroom-sized jazz studios. A dividing wall separating the classrooms was torn down and the room was acoustically enhanced by maintaining the existing heavy masonry walls around the room's perimeter and adding an acoustically isolated ceiling and doors. "The heavy walls make for a resonant sound," says Elefante.

Beneath the historic six-story cast-iron library, the Building Team converted a tiered lecture hall, two-thirds of which was being used as storage space, into the first dedicated group rehearsal hall in the conservatory's history. The demolition of the space involved the use of string gauges to closely monitor the removal of brick arches, which had been inserted between four steel support columns holding up the library. For sound control, the room was remade into a "box in a box" configuration. "The room floats completely separate from the building around it," says Elefante. The technique features acoustic isolation joints comprised of 2-inch gaps that run from the foundation through the roof. The floor slab is comprised of a sandwich of structural slab, neoprene and plywood insulation, and a second concrete slab. The ceiling is hung with acoustic isolation hangers.